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SUBJECT: VP SOLBES SAYS BUSINESS RELATIONS WITH U.S. CRUCIAL

1. SUMMARY: AT a June 24 Embassy-hosted lunch, Second Vice President and Minister for Economy and Finance Solbes said the new Spanish Administration wants to foster U.S.-Spanish business relations. He reiterated his intention to retain budget stability and increase productivity while devolving more spending decisions to Spain's 16 autonomous regions. He told the group that while he may not always win in interministerial battles, he is satisfied thus far and intends to stay in his position for his four-year term. END SUMMARY

2. On June 24, Ambassador Argyros hosted a lunch in honor of Pedro Solbes, Second Vice President and Minister for Economy and Finance. Over 30 CEOs from American and Spanish businesses were invited to hear Solbes' briefing on the overall economic situation in Spain. Describing business relations with the United States as "crucial," Solbes said his goal was to reduce obstacles that impede foreign direct investment (FDI) and to bring more companies to Spain. He applauded cooperative efforts by regulatory agencies on both sides of the Atlantic, and underscored the positive impact of U.S. businesses in Spain, estimating they employ 170,000 Spaniards. Additionally, Solbes said Spanish businesses see the United States as an excellent market for their goods and services.

3. Minister Solbes brushed off one participant's concerns regarding anti-U.S. electoral statements made by Spanish government officials. He told the group that many things are said during political campaigns, but it should now be clear that the new GOS administration is working towards improving relations with both European friends and the United States. Solbes later added that Europe is not the United States, and while Europe is interested in coordinating with the United States, in some areas Europe will always be different. He cited the Financial Services Action Plan as an area where he had "deep conviction" that it is not possible for Europe to do exactly the same as the United States.

4. Solbes also briefed the group on the lines of action of the new GOS administration. Acknowledging that the previous government had left the economy in relatively good shape, Solbes said he would try to build on areas that were already going well. He stressed the importance of budget stability saying that while discretionary fiscal policy for a certain amount of time can be acceptable, the GOS will be moderate in its spending so that it is able to meet future obligations including pensions. The new team is very committed to increasing productivity, and will also focus on policies that increase capital flows into Spain and provide incentives for innovative and high-tech investments. Solbes also made specific mention of competition policy, saying more attention needs to be paid to anti-trust issues in Spain.

5. The minister was candid with the group when a participant asked if the Ministry of Economy was able to stand firm on spending when other ministries had competing interests. Solbes responded that while he might not be perfectly happy with all the decisions made by the GOS, he would definitely be happy enough to stay in his position for four years.

6. One of the businessmen asked Solbes to consider a "Marshall Plan" to boost R&D in Spain. Solbes said more public money for R&D is not the solution, better management and coordination is. He also signaled that the new government will delegate more spending decisions to the regions. He said that in the last Aznar administration, regions received 20% of the budget; today with the transfer of education and health spending to the regions, the regions get 35%. He lamented that not all regions are able to take responsibility and some have a history of turning to the central government for help. He summed up the relationship as, "We legislate responsibility to them and they ask for money."

7. During the lunch Solbes also took the opportunity to comment on the economic situation in general. He said it was clear that the global economy was recovering with the United States as the engine of growth. While he acknowledged that European growth was significantly slower than U.S. growth, he boasted that Spain was better off than its European neighbors, with its strong capital formation and its estimated GDP growth of 2.8%. Solbes listed inflation and the energy intensity of Spanish industry as two key weak

points in the Spanish economy. He lamented that oil, with its escalating prices, continues to play such a crucial role in the overall economy.

18. COMMENT: Solbes was gracious in accepting the Ambassador's invitation to speak at this "off the record" lunch, was generous with his time and candid in his remarks. He gave the impression that he is capable and confident in his role as manager of Spain's budget and economy. During the lunch Solbes gave the assembled American and Spanish CEO's a clear message that the new administration is pro-business, favorably inclined towards U.S. investors, and intent on maintaining the budgetary stability and economic growth of the previous administration. He is clearly popular with the business community --- the luncheon participants spontaneously burst into applause when he declared his intention to stay on as Vice President and Minister for his full term.  
MANZANARES